

**CITY OF SAINT PETER, MINNESOTA**

**Market Feasibility Study for a Proposed  
Midscale Limited-Service Hotel to be located in  
Saint Peter, Minnesota**

**September 2017**

**Patek Hospitality Consultants, Inc.**  
**N57 W27841 Walnut Grove Court**  
**Sussex, Wisconsin 53089**  
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September 19, 2017

Mr. Russ Wille  
Community Development Director  
City of Saint Peter  
227 South Front Street  
Saint Peter, Minnesota 56082

Dear Mr. Wille:

In accordance with our agreement, Patek Hospitality Consultants, Inc. has completed a study of potential market demand and has prepared a statement of estimated annual operating results for a proposed 60-room midscale limited-service hotel to be located in Saint Peter, Minnesota.

As in all studies of this type, the estimated results are based upon competent and efficient management and an effective marketing program and presume no significant change in the competitive position of the hotel industry from that set forth in this report. We have no responsibility to update this report for events and circumstances occurring after completion of our fieldwork conducted in late October 2016 and subsequent research conducted in August 2017. These projections are based on estimates, assumptions and other information developed from our research and we do not warrant that they will be attained. We did not consider the legal and regulatory requirements applicable to this project, including zoning, permits, licenses and other state and local government regulations.

This report has been prepared for your use and guidance in determining whether a hotel should be pursued in Saint Peter. We understand this document could be used to attract a developer, a franchise or management agreement, and for financing and investment purposes. Neither our name nor the material submitted may be used in any prospectus or used in offerings or representations in connection with the sale of securities or participation interests without our express written permission.

Please do not hesitate to call if we may be of further assistance in the interpretation and application of our findings, recommendations and conclusions. We appreciate the cooperation you extended to us during the course of our engagement.

Sincerely,

Patek Hospitality Consultants, Inc.

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**EXECUTIVE SUMMARY**

<b>Brand Name:</b>	To be determined
<b>Number of Rooms:</b>	60
<b>Occupancy (Stabilized):</b>	65%
<b>Average Daily Rate (opening year):</b>	\$95.00
<b>Stabilized Year:</b>	Third year of operation

**SITE ANALYSIS**

We reviewed and evaluated six potential sites in Saint Peter and considered access, visibility, proximity to demand sources, and proximity to support amenities of each one and ranked them as excellent to poor. We provided an overall ranking in order to assist the City of Saint Peter in their assessment of a proposed hotel location.

**EXISTING LODGING SUPPLY IN SAINT PETER**

AmericInn Hotel & Suites	50 rooms
Viking Jr.	20
St. Peter Motel	13
Konsbruck Hotel	<u>5</u>
Total Rooms	88

There are 15 lodging properties with 1,226 rooms located in Mankato, Minnesota, which is about 15 miles south of Saint Peter. Property types range from economy to upscale.

**ESTIMATED PERFORMANCE**

**Projections –Proposed Midscale Limited-Service Hotel  
Saint Peter, Minnesota**

<b>Year</b>	<b>Occupancy</b>	<b>ADR</b>	<b>RevPAR*</b>
Year 1	55.0%	\$95.00	\$52.25
Year 2	60.0	98.00	58.80
Year 3	65.0	101.00	65.65
Year 4	65.0	104.00	67.60
Year 5	65.0	107.00	69.55

*\*RevPAR = Revenue Per Available Room (occupancy x average daily rate (ADR))  
Source: Patek Hospitality Consultants, Inc.*

## **PROJECT CONCEPT AND RECOMMENDATIONS**

It is recommended the proposed midscale limited-service hotel be developed with approximately 60 guest rooms. As a midscale property type, the proposed hotel should offer complimentary breakfast, free high speed Internet, business center, on-site convenience store, on-site fitness center, guest laundry, indoor pool and whirlpool, and possibly an on-site wine and beer bar. Some or all of the guest rooms should include refrigerator and microwave; flat panel TVs, iron and ironing board, and hair dryers would be offered in all guest rooms. The guest rooms should include a mix of double queen and king bedded rooms. We also recommend four king suites and two suites that would include small kitchen facilities that could accommodate those guests staying for an extended period of time or families needing extra space. We recommend the guest room breakdown be as follows:

**Guest Room Breakdown**

<b>Room Type</b>	<b>Number of Rooms</b>	<b>Percent to Total</b>
Double Queen	36	60.0%
King	18	30.0
King Suite	4	7.0
Suites with small kitchen	<u>2</u>	<u>3.0</u>
Total	60	100.0%

*Source: Patek Hospitality Consultants, Inc.*

In addition to the above-mentioned facilities and amenities, we recommend a boardroom seating 10-12 people as well as a meeting room to accommodate up to 30 people that could be utilized by the community as well as hotel guests. This could be used for corporate meetings, training, receptions, reunions, and other smaller events.

Adequate parking per local zoning should be provided. Oversized parking may need to be considered for guests with larger vehicles/trailers.

## **SITE ANALYSIS**

During our fieldwork and tour of the community, we were shown five potential sites for a proposed hotel. During our telephone demand interviews, a sixth site was suggested to us. We considered factors such as access, visibility, and proximity to demand generators and support amenities for each of these sites as well as the size of the parcel. We also reviewed information from the assessor's office that was provided by the City of Saint Peter for each site. We did not consider specific information about each site such as availability, cost, zoning, and infrastructure/utilities. Following is a list of the six locations followed by a more detailed description of each.

1. 4.4-acre site on Dodd Avenue just west of U.S. Highway 169
2. Hallett's Pond

3. Traverse Mall
4. Broadway Avenue and Sunrise Drive (near Gustavus Adolphus College and the new high school)
5. Old KFC and Adams House on Martin Street in the south part of town
6. Parking Lot #5 in downtown Saint Peter

There are two sites that we believe should no longer be considered: the old KFC/Adams House site is too small and Parking Lot #5 is too small as well as being located in the downtown historic district that may pose some development challenges to a hotel franchise based on the historic district's building requirements. We understand this parking lot is no longer an option, as it will be used for parking for the renovated Armory event space across the street.

A discussion of the remaining four sites follows:

**Site 1 Dodd Avenue Site** – Located on the north end of the city, this 4.4-acre vacant site is located in the northwest quadrant of North Dodd Avenue and Old Minnesota Avenue, about one block west of USH 169. Access is good and visibility is fair to good as the site is slightly elevated. Signage would be helpful on USH 169. The site is furthest from the major demand generators with the exception of Rivers Edge Hospital and Clinic, that is located about 0.8 miles west of the site and Sunrise Industrial Park to the south. Support amenities in the immediate area are limited at the present time and the site is the furthest from downtown restaurants and retail outlets and other major demand generators. Further to the south and closer to the following two sites is a McDonalds and GQ Grill & Chill Restaurant.

**Site 2 Hallett's Pond Site** – This 5.4-acre vacant site is located along Old Minnesota Avenue with Hallett's Pond providing its western border and Shopko Hometown forming its southern border. Access would be good from both directions on USH 169 via St. Julien Street that forms the site's northern border. Visibility of the site would be fair to good, as it would sit behind McDonalds and Dollar General however a three-story building would likely be visible for northbound USH 169 travelers although for southbound travelers they would have to turn on St. Julien Street prior to seeing the hotel. Aesthetically, it has potential with the pond and surrounding trees and it is close to the Nicollet County Fairgrounds, which hosts weddings and other events. Support amenities and retail outlets in the area include McDonalds and DQ Grill & Chill Restaurant, a Holiday Service Station, U.S. Bank ATM, Shopko and Dollar General. El Agave Restaurant, a sit-down Mexican restaurant is located just south of Union Street and that forms the southern border of the Nicollet County Fairgrounds.

**Site 3 Traverse Mall Site** – This 4.9-acre site would have very good access and visibility off of USH 169 and the specific site would be just north of the Holiday Service Station. Guests would turn onto St. Julien Street and turn left or north to the site. This site is also proximate to the Nicollet County Fairgrounds and those restaurant and retail outlets

mentioned above. The site is currently woods and would have to be cleared. The site is part of a larger 12-acre parcel that would have to be sub-divided. On the north end of this larger parcel is a rundown mobile home park, which is an eyesore and this would need to be addressed, in our opinion, prior to any hotel development occurring on this site.

**Site 4 Sunrise Drive and Broadway Avenue** - We reviewed this intersection on Google maps; it is adjacent to Gustavus Adolphus College and proximate to the new high school athletic fields. Access would be convenient off of USH 169 via Broadway Avenue although the site is about  $\frac{3}{4}$  of a mile west of 169 and would not be visible from the highway. Sunrise Drive provides direct north/south access from Rivers Edge Hospital and the Sunrise Industrial Park. We believe a site in the vicinity of this intersection could be considered as a possibility for the location of the proposed hotel. As the College is probably one of the larger demand generators in the market, it would be convenient to serve this demand. We understand this location has been discussed for development of a fire station however there appears to be land available that could also accommodate a hotel.

Following is a table that shows the four sites and the factors used to evaluate each site as they currently exist with a rating of excellent to poor. We also ranked each site with #1 being the most favorable site for development and #4 being the least favorable site based on the factors discussed.

#### **Evaluation of the Four Potential Hotel Sites Saint Peter, Minnesota**

<b>Site</b>	<b>Access</b>	<b>Visibility</b>	<b>Proximity to Demand</b>	<b>Proximity to Support Amenities</b>	<b>Intangibles*</b>	<b>Overall Evaluation and Rank</b>
<b>Site 1 Dodd Ave.</b>	Good	Fair to Good	Good	Fair	Privately Owned	<b>3.5 Good</b>
<b>Site 2 Hallett's Pond</b>	Good	Good	Good	Good	Privately Owned by Northern Con-Agg	<b>1.5 Very Good</b>
<b>Site 3 Traverse Mall</b>	Very Good	Very Good	Good	Good	Privately Owned by Traverse Mall	<b>1.5 Very Good</b>
<b>Site 4 Sunrise &amp; Broadway</b>	Fair	Poor	Very Good	Fair	Not a specific site identified	<b>3.5 Good</b>

*\*Intangibles include readily available site, ownership, or issues/challenges with the site  
Source: Patek Hospitality Consultants, Inc.*

The overall rankings 1-4 were based primarily on the four factors. As we have discussed with you, we are of the opinion that a **site in downtown Saint Peter** would provide a proposed hotel with a unique setting with proximity (walkability factor) to restaurants, shops, and the newly refurbished Armory Capital Room, a wedding and event center. It

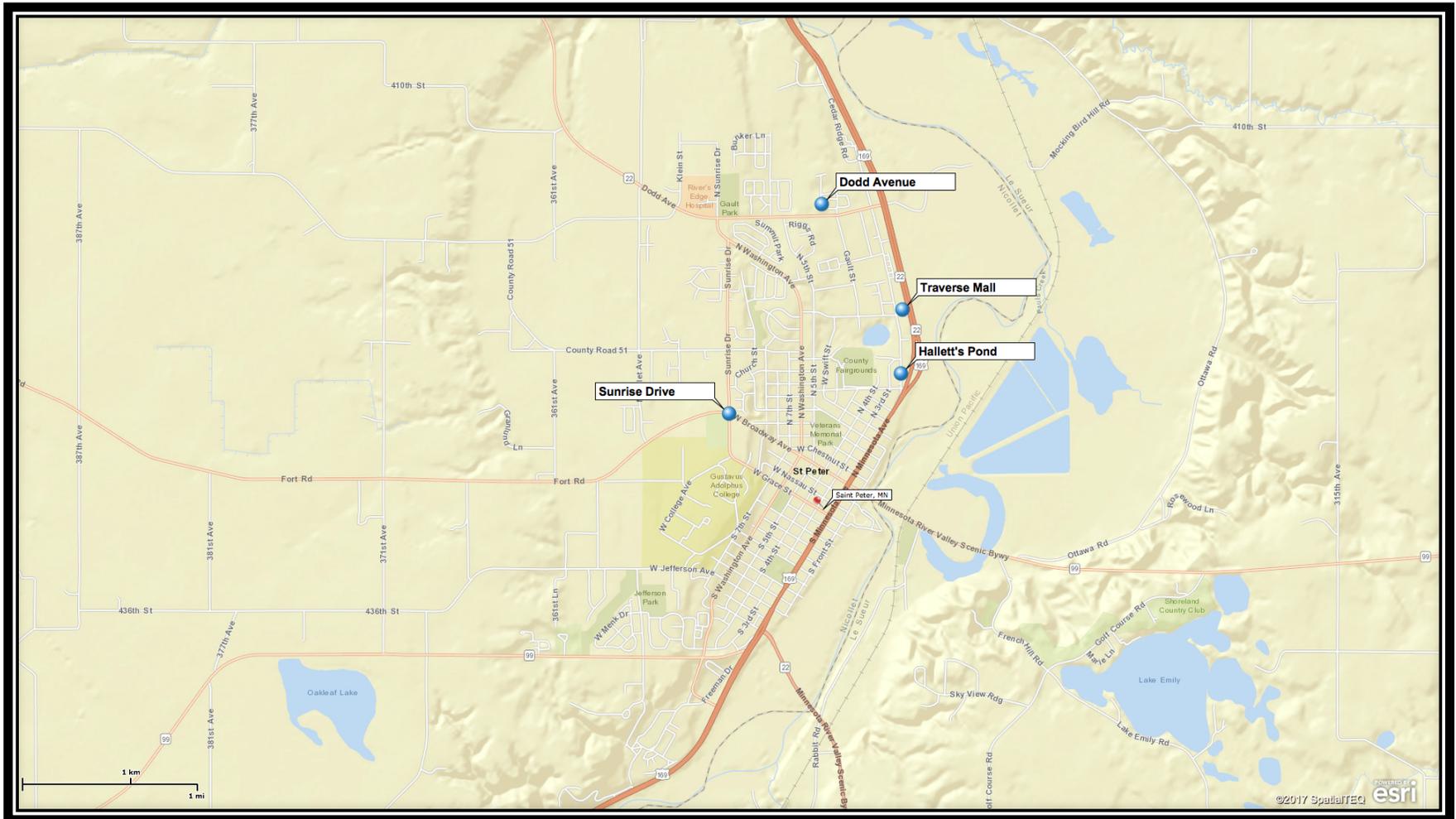
would also have very good access and visibility and being centrally located, it would be convenient to demand generators located throughout the city. While a site on Minnesota Avenue would be preferable, sites off of the main thoroughfare could also be considered. Another reason to consider downtown is that it offers a different location from the existing AmericInn located on Highway 169 in the northern sector of Saint Peter. At this point in time, it was indicated to us that it was unlikely there would be an available site in downtown that would be suitable for hotel development. Therefore, our analysis centers on the four sites discussed above. To recommend a specific site can be difficult as no one site met all of the site factors and each site has its strengths and weaknesses.

If a downtown site were not possible, both Hallett Pond and Traverse Mall sites would be our recommendation as they are close to support amenities in the immediate area and would be accessible and visible from USH 169. Hallett Pond provides some aesthetics (the pond and woods) while Traverse Mall is located immediately on 169. Both sites are convenient to access from throughout Saint Peter and those traveling through on USH 169. The Dodd Avenue site has potential however at the present time, there are no support amenities and it is much more of a residential neighborhood with some industrial. The Sunrise Drive site offers proximity to the College and that is a reason to consider this site however access and visibility are more challenging to capture the drive-through traffic or for those guests not familiar with Saint Peter; support amenities would be located in downtown Saint Peter (about  $\frac{3}{4}$  mile) that is accessed from Broadway Avenue, also known as STH 99. This road extends to the east via a bridge over the Minnesota River.

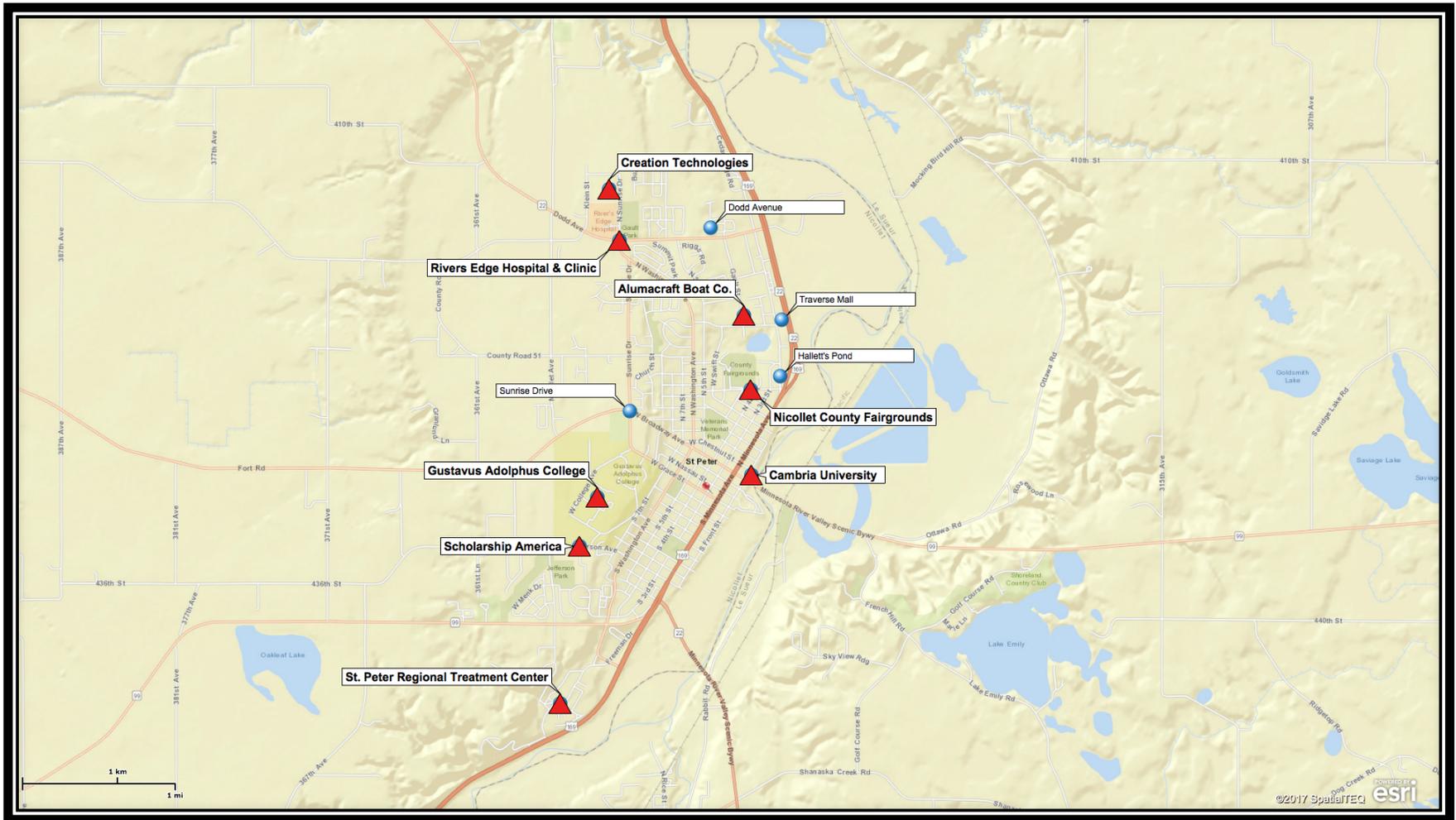
We did not conduct research on any of these sites other than review information that was provided to us. Additional research would need to be conducted to check the parcels for availability, size, zoning, cost, environmental issues, and infrastructure/utilities. Our ranking took into account a site that would attract and be conveniently located for both corporate and leisure travelers.

A map of the four potential sites within Saint Peter and a second map identifying the location of potential demand generators follow.

# POTENTIAL SITES FOR PROPOSED MIDSCALE LIMITED-SERVICE HOTEL SAINT PETER, MINNESOTA



# POTENTIAL DEMAND GENERATORS SAINT PETER, MINNESOTA



## **MARKET AREA OVERVIEW**

### **Saint Peter, Minnesota and Nicollet County**

Saint Peter, Minnesota is located in the Minnesota River Valley 65 miles southwest of Minneapolis/St. Paul and 12 miles north of Mankato on U.S. Highway 169. The city serves as the county seat for Nicollet County and is home to Gustavus Adolphus College, the second largest employer. The largest employer is the St. Peter Regional Treatment Center, the first psychiatric hospital in the state of Minnesota. Agribusiness is an important industry as the city is surrounded by 250,000 acres of farmland. The central business district is listed on the National Register of Historic Places and provides a wide array of specialty shops and eateries. Light manufacturing companies are also represented in the community.

### **Demographics, Business and Economic Base**

Although there is no correlation between the size of an area's population and its level of transient visitation, historical and projected population trends often reflect the economic climate of a locale. Population trends for the cities of Saint Peter and North Mankato (over 5,000 population), Nicollet County, and the state of Minnesota are presented in the following table. Nicollet County includes the communities of Saint Peter, North Mankato, Nicollet, Courtland, and Lafayette, as well as several townships. The U.S. Census Bureau provides data for communities with over 5,000 population.

#### **Population Estimates**

<b>Location</b>	<b>Census 2010</b>	<b>Estimated 2016</b>	<b>% Change 2010-2016</b>
<b>Saint Peter</b>	<b>11,196</b>	<b>11,692</b>	<b>4.4%</b>
North Mankato	13,394	13,619	1.7%
Nicollet County	32,727	33,575	2.6%
State of Minnesota	5,303,925	5,519,952	4.1%

*Source: U.S. Census Bureau*

Saint Peter is part of the Mankato-North Mankato Metropolitan Statistical Area (MSA). The MSA had a 2010 population of 94,149 and a more recent population of over 98,000. While the city of Mankato, the fifth largest city in the state of Minnesota outside of the Twin Cities metropolitan area is situated partially in Nicollet County, the majority of that community is located in Blue Earth County with a small portion in Le Sueur County.

According to the U.S. Census Bureau, the median household income in Saint Peter in 2015 dollars was estimated to be \$55,280, in North Mankato it was \$55,440, in Nicollet County it was estimated to be \$58,640, and in the state of Minnesota it was \$61,492.

Labor force estimates for Nicollet County and the Mankato-North Mankato MSA for 2015 and 2016 (annual average) and for the month of June 2017 is presented in the following table:

**Labor Force Estimates – 2015, 2016, and June 2017**  
**Nicollet County and Mankato-North Mankato MSA, Minnesota**

Category	Annual Avg. 2015		Annual Avg. 2016		Month of June 2017	
	County	MSA	County	MSA	County	MSA
Labor Force	20,151	59,808	20,337	59,230	20,159	59,384
Employed	19,616	57,535	19,759	57,963	19,564	57,431
Unemployed	535	1,695	578	1,845	595	1,953
Unemployment %	2.7%	2.9%	2.8%	3.1%	3.0%	3.3%

*Source: Minnesota Department of Employment and Economic Development*

Unemployment rates for the state of Minnesota during these same time periods ranged from 3.7 percent to 3.9 percent. Several counties from the south-central region of the state are among the lowest unemployment rates and are usually led by Nicollet and Blue Earth counties. Nicollet County's low unemployment rate could be some cause of concern for a new business such as a hotel and may require employment to come from outside the County.

The Current Employment Statistics (CES) for the month of June 2017 for the Mankato-North Mankato MSA is presented in the following table. A breakdown of industries was not available for the MSA on the Minnesota Department of Employment and Economic Development nor the US Bureau of Labor Statistics websites. We present the information that was available.

**Current Employment Statistics – June 2017**  
**Mankato-North Mankato MSA**

Industry Title	Employment
Total Nonfarm	57,407
Total Private	47,468
Goods-Producing excl. Ag.	10,347
Service-Providing	47,060
Private Service Providing	37,121
Government	9,939

*Source: Minnesota Department of Employment and Economic Development*

According to the Saint Peter Chamber of Commerce, the largest employers in Saint Peter are as follows:

**Largest Employers  
Saint Peter, Minnesota**

<b>Employer</b>	<b>Product/Service</b>	<b># Employees</b>
St. Peter Regional Treatment Center Campus	Psychiatric Hospitals	1,155
Gustavus Adolphus College	Education	700
St. Peter Public Schools	Education	330
Nicollet County	Government	255
Alumacraft Boat Co.	Manufacturing	200
Rivers Edge Hospital & Clinic	Healthcare	175
Benedictine Living Community	Healthcare	163
Family Fresh Market	Grocery/Retail	148
Creation Technologies	Semiconductors	140
City of St. Peter	Government	124
Scholarship America	Educational Services	120

*Source: Saint Peter Chamber of Commerce Resource Guide and Chamber Member Directory 2016*

According to Greater Mankato Growth, Inc., the top employers in the Greater Mankato area with 1,500+ employees include Taylor Companies, Mayo Clinic Health Systems, and Minnesota State University Mankato; with 500-1,499 employees, the companies include MRCI WorkSource, **Gustavus Adolphus College**, Monarch Healthcare, Le Sueur Inc., Mankato Clinic, Verizon Wireless, and Wal-Mart Distribution Center; and with 240-499 employees, the companies include Davisco Foods, MTU Onsite Energy, Coughlan Companies, Kato Engineering, MICO, Consolidated Communications, and EI Microcircuits.

### **Transportation**

U.S. Highway 169 and State Highways 22 and 99 serve the city of Saint Peter. U.S. Highway 169 is a major north-south highway in the state of Minnesota that connects the River Valley with the Twin Cities and the Iron Range in the far northeast sector of the state. For the most part, U.S. 169 is built to expressway or freeway standards except the section in Saint Peter where it is the main street through town. State Highway 22 is a highway in south-central and central Minnesota; the route crosses the Minnesota River between Saint Peter and Kasota. State Highway 99 is only 44 miles long and passes through the cities of Saint Peter and Le Sueur.

The Minneapolis-St. Paul International Airport, located about 65 miles north would be the primary air service provider to those visiting Saint Peter. The Mankato Regional Airport is owned by the city of Mankato and is a general aviation airport with about 74 airplanes based at the airport currently.

### **Economic Development**

Saint Peter is one of the oldest cities in the state of Minnesota and was founded in 1853. Located in south central Minnesota, Saint Peter is part of the fast growing Mankato-North

Mankato MSA. Saint Peter and Nicollet County are members of the Regional Economic Development Alliance (REDA), a group formed when seven cities and two counties joined with Greater Mankato Growth. The region is located in the Minnesota River Valley that provides rivers, lakes, ravines, bluffs, natural prairies, and forested areas. There are five higher educational institutions in this region with total enrollment of about 26,000 and that includes Gustavus Adolphus College in Saint Peter. The region offers a general aviation airport that provides a training program for future pilots. Transportation routes include U.S. Highways 14, 60, and 169 that carry goods throughout the Midwest and U.S. markets. Highway 169, the main thoroughfare through Saint Peter moves the equivalent of 30,000 tons of freight by truck per day and it carries the fifth heaviest freight volume of any highway in Minnesota behind I-94, I-90, I-35, and U.S. Highway 52. The region is located about one hour south of Minneapolis-St. Paul.

There are four industries that are very strong in the region, agriculture, manufacturing, healthcare, and education. Capital investment of about \$580 million took place over the period 2012-2015 (latest figures available) with a record number of projects and dollars invested and committed for 2016-2017. The region is comprised of 33 percent primary economy, 57 percent professional/service economy, and 10 percent retail/consumer economy.

There are several large public and private tax-exempt institutions that serve as major employers in Saint Peter. The St. Peter Regional Treatment Center (SPRTC) was the first psychiatric facility in the state and plays an important role in the city's economy. Employing over 1,100 people, the complex is comprised of three sections housing approximately 570 patients. A \$56 million renovation and construction of new residential and programming facilities was completed in January 2017 that included 36 beds in crisis and acute residential units plus 48 beds in less-restrictive settings. This first phase also included a new campus center offering a number of services. The second phase of the renovation/construction project was endorsed by Minnesota's governor and could amount to \$70 million that would take about two years to complete and would include building new residential units, reconstructing current split level units into single story spaces, remodeling other living spaces, and bringing all facilities up to building code standards.

The second largest employer is Gustavus Adolphus College, a Swedish Lutheran liberal arts college with an enrollment of about 2,200 students (fall 2016) from across the U.S. and international. The College participates in NCAA Division III athletics and the Minnesota Intercollegiate Athletic Conference (MIAC) in 23 sports. The annual Nobel Conference brings about 5,000 guests to Saint Peter each fall for a two-day conference with wide-ranging current and relevant topics discussed each year; the College has hosted this official conference since 1965, which has the authorization of The Nobel Foundation, Stockholm. Christmas in Christ Chapel attracts about 1,200 people for each of the five performances held in early December as a celebration of the Christmas season. Other notable signature events that could bring visitors to campus/Saint Peter include Artist Series, Building Bridges, Commencement, The Festival of St. Lucia, and MAYDAY Peace Conference.

Other education related employers include Scholarship America and Minnesota School Boards Association.

The current River's Edge Hospital & Clinic opened in 2004 with 17 beds as the St. Peter Community Hospital and changed its name in 2008 to River's Edge Hospital. In 2009 a 25,000 square foot medical office building opened and is connected to the hospital; today both Mankato Clinic and Mayo Clinic lease the space. In 2014, River's Edge partnered with the Orthopaedic & Fracture Clinic to form a knee and joint replacement program called OrthoEdge. It is estimated that 20 knee surgeries are performed weekly. In 2016, a partnership with the Mankato Clinic brought a dermatology clinic to Saint Peter. There are several senior housing and continuum of care facilities located in Saint Peter. River's Edge Hospital has discussed expanding the number of beds to 25; no further details are available as to the timing of this expansion.

There is a number of light manufacturing companies in Saint Peter located in the North Industrial Park including Alumacraft Boat Co., Creation Technologies, GEO Boy/Jaraff Industries, and E.I. Microcircuits. Agriculture in Nicollet County is a significant industry. The county's cash receipts due to agriculture are upwards of \$400 million according to the Minnesota Department of Agriculture. The county ranks 20<sup>th</sup> in the state in total agricultural production and 34<sup>th</sup> in crop production. The top agricultural ranking is in the pork industry, ranking 4<sup>th</sup> in the state in 2015.

### **Tourism**

Bounded by the Minnesota River and surrounded by scenic bluffs, Saint Peter has the natural resources to offer the outdoor enthusiast as well as those visitors seeking historic and cultural structure. Eight miles to the west of Saint Peter is the Swan Lake Wildlife area, which is one of the best natural wildlife preserves in the country. There are several nearby lakes offering fishing, camping, boating, and hunting as well as other year-round activities. Saint Peter has 17 parks with the 11-acre Minnesota Square Park hosting events like the annual Fourth of July celebration.

Arts and entertainment is a large part of Saint Peter. The Arts Center of Saint Peter and Hillstrom Museum of Art on the College's campus along with their theater, music and dance departments offer events and performances.

Historic places include the Treaty Site Historical Center museum, the Historic E. St. Julien Cox House, and a number of other buildings on the historic tour. Approximately 37 buildings along U.S. Highway 169 between Broadway Avenue and Grace Street are located in the commercial district of downtown Saint Peter. The commercial district was added to the National Register of Historic Places in 2001. Another attraction is Saint Peter's Pearly Gates that is bordered by the high river bluffs.

Festivals and events include:

- St. Patrick's Parade – March
- Key City Kennel Club Dog Show – May
- MN High School Rodeo Championship – June
- Ambassadors Blues – June
- Bend of the River Festival – June
- Old Fashioned Fourth of July Celebration
- Nicollet County Fair – August
- Rock Bend Folk Festival – September – 12,000 attendees over two days
- Auto Restorer's Car Show/Swap Meet – September
- Christmas in Christ Chapel – December

The Nicollet County Fairgrounds host the annual county fair each August and features agricultural exhibits, animals, rodeo, demolition derby, tractor pull, and carnival rides. Other events held at the fairgrounds include Winter Slam, the Auto Restorers Car Show, dog shows in May and September, horse shows in August and September, and the Minnesota high school rodeo championships in June. On the grounds is Johnson Hall, an enclosed large, open space for seating of up to 500 people and it is divisible to hold smaller groups. There is a catering kitchen and plenty of parking. This is a popular venue for weddings year-round and Christmas parties.

“New” event space is being planned for the old St. Peter Armory in downtown Saint Peter. The building, which opened in 1913, is listed on the National Register of Historic Places and has been renamed The Capitol Room. The main ballroom will contain 4,100 square feet and could accommodate up to 300 people. A second space of about 3,000 square feet will also be available. The first event is scheduled for the latter part of September 2017. The venue will focus on weddings although the venue will be able to host a variety of events based on its size.

Venues for weddings and social gatherings also include the Shoreland Golf Course. This 18-hole semi-private golf course is situated on Lake Emily and offers banquet facilities for 25-250 people. The St. Peter Community Center can also accommodate meetings and social gatherings such as bridal showers, graduation parties, and open houses.

Outside of Saint Peter, in Kasota, is the Chankaska Creek Ranch & Winery. This winery and distillery offers six venues for weddings and other events such as receptions, birthday parties, showers, corporate functions, and others. This facility is located south of Saint Peter along Highway 22 and is a potential source of demand for a new hotel, as there are no hotels located in Kasota.

The nearby communities of Cleveland and Kasota feature festivals and events that could generate demand for a hotel. The greater Mankato area generates tourist demand from attractions, events, and festivals including the Minnesota Vikings training camp held in July

and August at Minnesota State University. The Verizon Center in downtown Mankato opened in September 2016 with about 75,000 square feet of meeting space including event space and an arena.

Overall, Saint Peter, Nicollet County, and the surrounding area offer a number of attractions and events for tourists. The strength of the economy in Saint Peter and the greater Mankato region including nearby communities bodes well for future hotel development.

Saint Peter's location within the state of Minnesota is shown on the following map.



## **HOTEL SUPPLY AND DEMAND ANALYSIS**

### **Lodging Supply**

At the present time, there are four lodging properties located in Saint Peter as shown in the following table.

#### **Existing Lodging Supply Saint Peter, Minnesota**

Property	Property Type	Number of Rooms	Year Opened/Changed	Rack Rates* Weekday/Weekend
<b>AmericInn Hotel &amp; Suites</b>	Midscale	50	1988	\$92.90/\$114.90
<b>Viking Jr. Motel</b>	Economy	20	1998	\$60.00/\$60.00
<b>St. Peter Motel</b>	Economy	13	NA	\$50.00/\$50.00
<b>Konsbruck Hotel</b>	Boutique	5	1895/2013	\$159.00/\$159.00
<b>Total</b>		88		

*\* Rack rates are based on rates posted on the property's website on a particular day for a future date. We conducted research on August 10, 2017 for Tuesday, August 22 and Saturday September 9*

*Source: Patek Hospitality Consultants, Inc. and property websites*

As the table shows, there is a wide range of property types and rack rates in the Saint Peter market, ranging from economy to a higher end boutique hotel offering only five guest rooms. In our opinion, the AmericInn Hotel & Suites would be the most direct competitor for the proposed hotel based on its facilities and amenities offered, its chain affiliation, product quality, and rack rates. The Viking Jr. and St. Peter Motels would not be considered competitive due to their lower rate structure and market orientation toward the more price conscious traveler including lower rated contract business. The Konsbruck Hotel would offer some competition as it is a unique property type, offers a quality product, and is located in downtown Saint Peter. With only five guest rooms, the size of the property would minimize competition to a new hotel.

Mankato and North Mankato offer 15 hotels with 1,226 guest rooms. For informational purposes only, we provide a table identifying the hotel properties in these two markets. All of the hotels are located in Mankato with the exception of the Best Western that is located in North Mankato.

**Lodging Supply  
Mankato and North Mankato, Minnesota**

<b>Property</b>	<b>Parent Company</b>	<b>Property Type</b>	<b>Number of Rooms</b>	<b>Year Open/Change</b>
Country Inn & Suites	Carlson	Upper Midscale	101	1998
Microtel Inn & Suites	Wyndham	Economy	59	2005
Mankato City Center	Independent	Midscale	150	1979/2009
Holiday Inn Express & Suites	IHG	Upper Midscale	88	2009
Rivers Hills Hotel & Suites	Independent	Midscale	53	2003/2015
Fairfield Inn	Marriott	Upper Midscale	61	1997
Hilton Garden Inn	Hilton	Upscale	118	2007
Days Inn	Wyndham	Economy	50	1989
Riverside Suites	Independent	Economy	60	1991/2013
Super 8	Wyndham	Economy	60	1976
Baymont Inn	Wyndham	Midscale	56	1994/2015
Courtyard	Marriott	Upscale	93	2012
Budget Host	Budget Host	Economy	52	2000
AmericInn Hotel & Conference Center	AmericInn/Wyndham*	Midscale	80	1997
Best Western North Mankato	Best Western	Midscale	<u>145</u>	1969/1987
<b>Total</b>			<b>1226</b>	

*\*Note: AmericInn is in the process of being acquired by Wyndham Hotels International  
Source: STR, Inc. and Patek Hospitality Consultants, Inc.*

The Mankato hotel market ranges from economy to upscale properties. Three of the properties are independent while the remaining 12 properties are affiliated with national hotel chains. Wyndham hotel brands are well represented in this market with four and soon to be five hotels under this parent company. Much of the hotel product in the Mankato market area is older with the newest hotel built in 2012, the Courtyard by Marriott. There have been some conversions of properties in recent years like the Baymont Inn that was previously the Quality Inn, a Choice Hotel brand.

In our opinion, Mankato hotels are capturing demand from Saint Peter due to the limited supply of quality hotel rooms that corporate and leisure guests visiting the community desire. Both the AmericInn Hotel & Suites and the Konsbruck Hotel offer quality accommodations. The Viking Jr. Motel and St. Peter Motel offer accommodations that, while clean, are more suited to the price conscious and contract traveler. Because two of the four lodging properties are not meeting the needs of the majority of the Saint Peter visitors, we believe that a new hotel of about 60 guest rooms in Saint Peter would induce demand that is now staying in Mankato. We believe the Mankato market could provide overflow demand for a new hotel in Saint Peter and this is discussed in a later section.

We have prepared a competitive property profile describing the features of the existing lodging supply in Saint Peter, followed by a location map.

**SAINT PETER, MINNESOTA  
PROPOSED MIDSCALE LIMITED-SERVICE HOTEL  
EXISTING LODGING SUPPLY PROFILE**

	<b>AmericInn Hotel &amp; Suites</b>	<b>Viking Jr. Motel</b>	<b>St. Peter Motel</b>	<b>Konsbruck Hotel</b>
Address	700 N. Minnesota Ave	216 Martin Street	221 Union Street	408 S. Third Street
# Of Rooms	50	20	13	5
Year Opened/Changed	1988	1998	NA	1895/2013
<b>FACILITIES/AMENITIES</b>				
Suites	yes	none	no	no
Complimentary Breakfast	yes	no	no	no
Restaurant/Lounge	none	none	none	Third Street Tavern
Meeting Space SF	none	none	none	none
Other Features	Indoor pool, hot tub, sauna, whirlpool & fireplace suites locally owned	locally owned micro/fridge all rooms exterior corridor	exterior corridor micro/fridge all rooms	unique décor suites named after five governors
<b>2017 PUBLISHED RATES- Two Beds</b>				
Weekday, August 2017	\$92.90	\$60.00	\$50.00	\$159.00
Weekend, September 2017	\$114.90	\$60.00	\$50.00	\$159.00

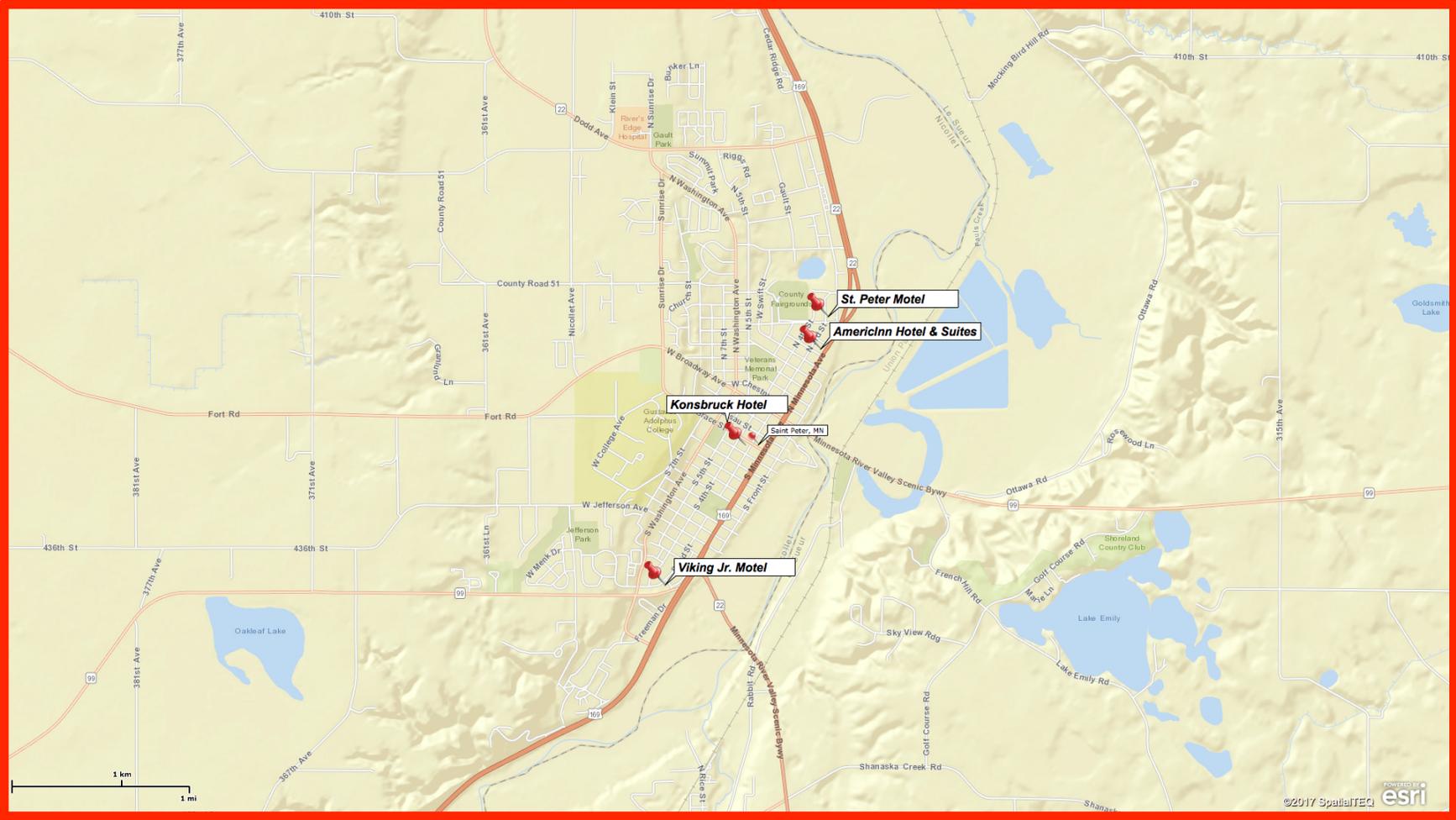
*NA - Not Available*

*Rack Rate for Konsbruck Hotel is for one queen bed, the only bed type the property offers*

*Note: Published rates as of Thursday, August 10, 2017 for Tuesday, August 22, 2017 and Saturday, September 9, 2017*

*Source: Patek Hospitality Consultants, Inc., Hotel Interviews and/or hotel websites*

# LODGING SUPPLY SAINT PETER, MINNESOTA



## **Additions to Supply**

During the course of our research, we learned of no other hotels proposed for the Saint Peter market.

## **Area Room Demand**

Hotel room demand is categorized as “demonstrated” demand, or that demand which can be quantified by examining occupancies at existing hotels; “unsatisfied” demand, or that demand which is turned away or denied at existing hotels because of capacity limits and finding accommodations outside the defined competitive market; and “induced” demand, defined as that demand which does not now seek accommodations in the market but which would, given an acceptable quality hotel, the proper sales efforts and the availability of additional rooms supply. In this market, all three types of demand have been evaluated.

The demand generator interviews and phone calls that were conducted during our fieldwork and subsequent research were utilized in estimating our demand for the proposed hotel. In conducting market research for a project such as the subject property, we believe it is important to conduct demand interviews with companies and organizations that are potential generators of hotel room demand. These interviews provide us with insight into the travel volume, needs, hotel preferences, desired room rates, and types of travelers (i.e. executives, sales reps, vendors, etc.) for each organization and not necessarily the number of room nights that a company could generate. This is a very difficult number to quantify because there is usually more than one person that makes reservations for out-of-town visitors or the company/organization does not track this information. The interviews also help us gauge the prospective interest in the proposed hotel and provide helpful input for the facilities, amenities, and services desired for the property.

Our demand interviews were conducted upon completion of our fieldwork and prior to issuing our Phase I letter. The companies/institutions we spoke with included Alumacraft Boats, E.I. Microcircuits, Creation Technologies, Gustavus Adolphus College, River’s Edge Hospital & Clinic, Saint Peter School District, Nicollet County Fairgrounds, Scholarship America, and Cambria University. Messages were left with Jaraff Industries and Saint Peter Regional Treatment Center (SPRTC).

Our demand interviews indicated that the majority of the hotel users are pleased with the AmericInn Hotel & Suites as a hotel option in Saint Peter although they would like to see additional choices for lodging. They also indicated during peak periods of demand, there are no rooms available at this 50-room property and they are forced to travel to Mankato. Demand is generated by weekday corporate, College graduation, the Nobel Conference, Synod Convention, Homecoming, sports camps, weddings, college and high school athletics, orthopedic surgeries, recruiting, training, events and festivals such as Nicollet County Fair, Winter Slam, auto restorers, dog and horse shows, construction workers, and potential overflow from Mankato. These are just some of the potential demand generators that were mentioned during our interviews (not an all inclusive list). While the local industry generates some weekday demand, Cambria University, Rivers Edge Hospital & Clinic, and

Gustavus Adolphus College have the potential to generate weekday demand throughout the year. While we did not speak with SPRTC, we would estimate that they have medical professionals and others visiting on a weekly or nearly weekly basis as well as visitors of the patients that may come on weekends.

There is seasonality of demand in Saint Peter with the summer months and weekends in general generating higher occupancy. The slower periods of demand are from November to March and that is typical for Midwest hotels. It is always a challenge for lodging properties during this time and that is why a franchise with a good reputation and a solid marketing plan, reservation system, and frequent guest program is so important. In addition, a property with good management is also essential.

We were provided lodging tax information for the years 2014-2016 and year-to-date through June 2017 for the four properties in Saint Peter. The following table shows total receipts for the four properties by month, which shows the seasonality of demand in this market.

<b>Lodging Tax Receipts</b>				
<b>Month</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>
January	\$69,770	\$62,566	\$65,717	\$90,654
February	88,843	81,237	80,907	76,390
March	83,683	81,182	80,818	96,404
April	93,065	100,740	100,667	117,454
May	110,395	107,924	113,349	120,091
June	124,547	125,062	136,341	135,141
YTD June	\$571,303	\$558,711	\$577,799	\$636,134
% Change	--	(2.2%)	3.4%	10.1%
July	131,548	140,012	134,421	
August	127,950	135,212	132,133	
September	122,150	121,114	124,212	
October	132,039	123,750	129,467	
November	77,806	73,120	102,239	
December	66,853	70,580	97,025	
Total	\$1,228,649	\$1,222,501	\$1,297,296	
% Change	--	(0.5%)	6.1%	--
RevPAR	\$38.25	\$38.06	\$40.39	

*RevPAR = Revenue Per Available Room (occupancy x average daily rate ADR)*

*Source: City of Saint Peter, MN*

The months of April through October are consistently stronger in this hotel market as compared to the months of November to March. Total receipts were up in 2016 by 6.1 percent over the same 12-month period in 2015. Year-to-date through June 2017, receipts were up 10.1 percent over the same six-month period in 2016. It is estimated the overall market performs in the low to mid 50s percent range in occupancy. It should be noted that

this estimate includes all four properties that we described earlier in this section. One of these properties we estimate performs much better than the estimated market average occupancy and this was confirmed during our telephone conversation with this property.

## **PROJECTED MARKET POSITION AND PENETRATION OF THE PROPOSED HOTEL**

### **Methodology and Assumptions**

We assessed the prospective competitive status of the Subject hotel as compared to the defined competitive lodging supply and as it will be affected by such factors as location, setting, nature and quality of facilities. The methodology used in this analysis considered the factors that we believe could influence the prospective success of the proposed midscale limited-service hotel.

- Saint Peter is located within south central Minnesota within the growing Mankato-North Mankato MSA.
- The hotel will be affiliated with a national hotel brand with a good reservation system and guest loyalty program. The brand is to be determined and this will be discussed in a separate letter should you require it.
- The hotel product in Saint Peter is a mix of property types with two of the properties serving the price conscious and contract demand. We believe there is demand that is leaving the market and staying in Mankato or choosing not to stay in Saint Peter because the current properties are not meeting their needs (either due to availability or product type). With a brand new hotel offering quality facilities and amenities, we believe a large portion of this demand would likely return to stay in Saint Peter.
- We discussed four sites for the city of Saint Peter to consider for hotel development and all have their strengths and weaknesses. We also believe that consideration should be given for a location in downtown Saint Peter.

To project occupancy for the proposed hotel we considered the property's recommended facilities, services, and amenities; the site's location; the competitive properties and the competitive environment in which the hotel will operate. The advantages and disadvantages of the site were discussed in the Site Analysis section of this report. Other advantages and disadvantages, as well as other factors that will influence the property's ability to capture market demand (and therefore achieve the projected occupancy and ADR levels) are:

1. The Subject Hotel will be open within 18-24 months of the date of this study. If the hotel opening is delayed, our estimates regarding future performance could be affected. Our estimates were based on a calendar year.

2. The Subject Hotel will feature 60 guest rooms and suites and will include the amenities and facilities discussed in the Project Concept section of this report.
3. A reputable and experienced hotel management company will operate the hotel and the property will be affiliated with a national hotel company.
4. There are no other additions to supply that we are aware of for Saint Peter. If additional hotels enter the market during our projection period, our occupancy and average daily rate estimates for the proposed hotel could be impacted.

### **Estimates of Market Mix**

Market mix discusses the segments of demand that the proposed hotel could capture. Typically, these segments are broken out into three categories including Corporate Individual, Group/SMERF, and Tourist/Other. The following paragraphs discuss these three segments and our estimate of room nights captured in each segment. The number of room nights captured in each segment is calculated based on the number of room nights occupied in a stabilized occupancy (which is estimated to occur in the third year of operation) times the estimated percentage of each segment. For example, the hotel will have 21,900 room nights available in a year (60 rooms x 365 days = 21,900). We estimate the hotel to achieve 65 percent occupancy in the third year of operation so  $21,900 \times .65 = 14,235$  room nights occupied. We estimate the segmentation of demand for the Subject hotel in a stabilized year to be as follows:

#### **Estimated Market Mix and Room Nights – Stabilized Year Proposed Midscale Limited-Service Hotel Saint Peter, Minnesota**

<b>Segment</b>	<b>Percent of Total</b>	<b>Room Nights</b>
Corporate Individual	38.0%	5,409
Group/SMERF	7.0	997
Tourist/Other	<u>55.0</u>	<u>7,829</u>
Total	100.0%	14,235

*Numbers have been rounded*

*Source: Patek Hospitality Consultants, Inc.*

**Corporate Individual** – Corporate individual is defined as those individual travelers doing business with the local companies in a market including those companies that we discussed earlier in this section. We believe that a new hotel in Saint Peter could also induce corporate demand from the surrounding communities due to either no lodging available in those communities or the existing product does not meet the needs of the corporate base. Our projections for this demand segment are for approximately 5,409 room nights to be accommodated at the Subject hotel in the stabilized year of operation (third year), which represents approximately 38.0 percent of the hotel's overall captured room nights.

**Group/SMERF** - SMERF (social, military, educational, religious, fraternal) groups are the likely demand generators in this segment and these room nights are mostly generated during the summer months or on weekends. Weddings, reunions, and other social events where groups of people are booking a block of rooms would make up the largest percentage of this segment. This segment also includes corporate group meetings although we estimate this would account for a smaller number of room nights. Some of the companies indicated they do host annual/quarterly meetings or would bring people in for training and this type of demand would be included in this category. Our projections for this demand segment are for 997 room nights to be accommodated at the Subject hotel in the stabilized year of operation and represents approximately 7.0 percent of the hotel's overall captured room nights.

**Tourist/Other** - this segment is comprised of individual travelers that are visiting for social reasons whether for sporting events, festivals, visiting family, fairground events, or attending functions such as weddings or funerals. Commencement and other events discussed previously at Gustavus Adolphus College would create tourist demand. Orthopaedic surgeries conducted at the hospital are included in this segment as are family and friends visiting local residents. U.S. Highway 169 is a well-traveled highway that could bring walk-in traffic as well as visitors that make reservations ahead of time as they travel north or south through the state of Minnesota and connect with other major highways. The indoor pool could also be used to market the hotel to the local residents for weekend getaways and other social events such as birthday parties, reunions, etc. The proposed hotel is expected to accommodate approximately 7,829 room nights in the stabilized year of operation that represent approximately 55 percent of total demand.

**Extended-Stay** - We did not break out extended-stay demand but rather included it in our corporate individual or tourist/other segments, as we don't believe it will be a significant source of demand for the proposed hotel. Extended-stay is generally defined as stays of five nights or more.

### **Projected Occupancy and Average Daily Rate (ADR)**

We have chosen to use a stabilized occupancy of 65 percent, which we believe will be achieved in the third year of operation. The stabilized occupancy is intended to reflect the anticipated results of the property over its remaining economic life, given any and all changes in the life cycle of the hotel. Therefore, the stabilized occupancy excludes from consideration any abnormal relation of supply and demand as well as any favorable or unfavorable non-recurring conditions that may result in unusually high or low occupancies. Although the Subject hotel may operate at occupancies above this stabilized level, we believe it equally possible for new competition and temporary economic downturns to force the occupancy below this anticipated stabilized level.

Based on the rate structures at the competitive facilities and their locations, quality levels, chain affiliations, services and facilities offered in comparison to the proposed hotel, we estimate the proposed midscale limited-service hotel will be able to achieve an average daily

room rate of \$95.00 in the first year of operation. It is our opinion the proposed hotel will be able to compete very favorably with the other hotels in the market as well as some of the quality hotels located in Mankato because it will be a brand new hotel.

The projected rate takes into account rack rates, discounted rates offered to preferred customers, transient discounted rates, and franchise corporate rates. It also considers the mix of demand and achievable rate by market segment. The proposed hotel's ADR will be influenced by the mix of demand and can be maximized by careful balance of room availability and corporate individual, group, and tourist/leisure demand. Rack rates for the proposed hotel are estimated to range from \$79.00-\$139.00 depending on the demand segment, time of year, and room type.

In order to estimate an occupancy and average daily rate trend for the proposed midscale limited-service hotel over the first five years of operation, we estimated monthly occupancy and ADR trends based on our knowledge of the Saint Peter market, the lodging tax information provided to us, the demand segments discussed in this report and the patterns of demand based on our demand interviews, as well as our experience in other Midwest markets. The following table presents occupancy, ADR, and revenue for the stabilized year (third year of operation) for the proposed hotel. The information is based on 60 rooms, 365 days, 65.0 percent stabilized occupancy, and a \$95.00 ADR in the hotel's first year of operation, inflated 3.0 percent annually and rounded.

**Proposed Midscale Limited-Service Hotel – Saint Peter, Minnesota  
Performance Estimates in a Stabilized Year (third year of operation)**

Month	Rooms Available	Occupancy	Rooms Occupied	Average Daily Rate	Revenue
January	1860	50.0%	930	\$91.00	\$84,630
February	1680	50.0	840	91.00	76,440
March	1860	55.0	1023	96.00	98,208
April	1800	55.0	990	96.00	95,040
May	1860	70.0	1302	111.00	144,522
June	1800	85.0	1530	115.00	175,950
July	1860	85.0	1581	115.00	181,815
August	1860	85.0	1581	111.00	175,491
September	1800	75.0	1350	96.00	129,600
October	1860	65.0	1209	95.00	114,855
November	1800	50.0	900	85.00	76,500
December	1860	50.0	930	85.00	79,050
<b>Total/Average</b>	21900	65.0%	14166*	\$101.00	\$1,432,101*

*\*Numbers may not add due to rounding*

*Source: Patek Hospitality Consultants, Inc.*

The following occupancy, average daily rate, and RevPAR are projected for the proposed midscale limited-service hotel based on a 12-month period.

**Projections –Proposed Midscale Limited-Service Hotel  
Saint Peter, Minnesota**

Year	Occupancy	ADR	RevPAR*
Year 1	55.0%	\$95.00	\$52.25
Year 2	60.0	98.00	58.80
Year 3	65.0	101.00	65.65
Year 4	65.0	104.00	67.60
Year 5	65.0	107.00	69.55

*\*RevPAR = Revenue Per Available Room (occupancy x ADR)*

*Source: Patek Hospitality Consultants, Inc.*

**CONCLUSION**

Based on our market research and the information presented in this report, it is our opinion that development of a 60-room midscale limited-service hotel is market justified and would be well suited for the Saint Peter, Minnesota market.

Our assumptions are based on the hotel being affiliated with a national hotel company with a strong reservation system and guest loyalty program as well as an aggressive sales and marketing effort in place prior to the hotel's opening and aggressive and competent management once the hotel is open. We have assumed that the local economy will continue to experience steady and healthy growth that will continue to bring corporate and leisure visitors to Saint Peter, Nicollet County, and the MSA. Should any of these assumptions not occur as projected or if unforeseen circumstances occur locally or on a national level, our estimates could be negatively affected.

## **PROJECTIONS OF INCOME AND EXPENSE**

### **Methodology**

In order to project financial operating results for the proposed midscale limited-service hotel, we have in our files a custom HOST Report provided by STR Analytics, a STR, Inc. company. Our criteria included limited-service hotels located in the Midwest with 60 rooms or less with or without a national franchise. The majority of the properties were chain affiliated. The HOST Report included 15 hotels with 873 rooms located in the Upper Midwest states of Illinois, Indiana, Iowa, Michigan, Minnesota, and Wisconsin. The custom HOST Report properties achieved occupancy of 66.5 percent and an ADR of \$99.58 in 2016 as compared to 68.0 percent and \$96.60 in 2015. The average size property for the contributing properties was 58 rooms.

We also used the 2017 (2016 data) HOST Almanac by STR Analytics for limited-service hotels throughout the U.S. The categories we referenced included the West North Central region of the country (that includes the state of Minnesota), a Small Metro/Town Location, and Upper Midscale and Midscale/Economy class (based on average daily rate). In addition we referred to actual financial operating statements in our files.

The following paragraphs provide a brief explanation of the basis used to prepare the projection for each line item. Data is presented as various input forms such as Per Available Room (PAR), Per Occupied Room (POR), or Ratio to Sales. Critical factors for the various properties were taken into consideration when reviewing the comparable data and adjustments for the subject hotel were made based on location, facility, occupancy and rate, and other relevant operational issues.

All amounts have been rounded to the nearest thousand dollars and account classifications for the hotel component conform to the definitions prescribed by the 11<sup>th</sup> revised edition of the *Uniform System of Accounts for the Lodging Industry*.

### **Inflation and Growth in Revenues and Expenses**

Our projections incorporate an estimate of general price inflation based upon econometric projections from various sources, tempered by our observations and expectations based on historical perspectives both locally and nationally.

To portray price level changes, we have assumed an inflation rate of 3.0 percent throughout our projection period. Overall, the 3.0 percent rate reflects our long-term outlook for the future movement of prices in the area and is intended only to portray an expected long-term trend in price movements, rather than for a specific interval in time. Our growth assumptions for average rate have been presented previously in this report, and all other line item expenses are projected to increase at the level of general inflation.

On the following pages, we provided information for various categories from the custom HOST Report for 2015 and 2016 as well as from the 2017 HOST Almanac. For these same categories, we provided our estimate in a stabilized year (third year of operation) for the proposed hotel.

### **Departmental Revenues and Expenses**

**Rooms Department:** Room revenue is estimated by multiplying the occupancy rate by the average daily rate (ADR) projected in the Hotel Supply and Demand section of the report. The occupancies, average daily rates and resulting room revenue projected for the hotel are summarized as follows:

**Projected Performance  
Proposed Midscale Limited-Service Hotel  
Saint Peter, Minnesota**

<b>Year</b>	<b>Occupancy</b>	<b>ADR</b>	<b>RevPAR</b>	<b>Room Revenue</b>
Year 1	55.0%	\$95.00	\$52.25	\$1,144,300
Year 2	60.0	98.00	58.80	1,287,700
Year 3	65.0	101.00	65.65	1,437,700
Year 4	65.0	104.00	67.60	1,480,400
Year 5	65.0	107.00	69.55	1,523,100

*\*Estimated opening assumed within 18 months of the date of this study*

*Source: Patek Hospitality Consultants, Inc.*

**Rooms Department expenses** include payroll and related costs associated with the front desk and housekeeping, operating supplies, laundry, linens, guest supplies, complimentary breakfast, cable television, and other items necessary to maintain guest rooms.

### **Rooms Expense**

<b>Category</b>	<b>Limited-Service Hotels</b>	
	<b>POR</b>	<b>Ratio to Sales</b>
West North Central Region	\$22.41	23.8%
Small Metro/Town Location	\$24.31	23.9%
Upper Midscale Class	\$30.58	25.0%
Midscale/Economy Class	\$14.43	20.1%
Custom HOST 2015	\$28.15	29.1%
Custom HOST 2016	\$29.33	29.5%
<b>PHC Estimate (Stabilized)</b>	<b>\$22.22</b>	<b>22.0%</b>

*Source: HOST Almanac, STR, Inc., Patek Hospitality Consultants, Inc.*

**Food and Beverage:** The proposed midscale limited-service hotel will not offer a restaurant. Expenses associated with the complimentary breakfast are included in the Rooms Expense.

**Miscellaneous Income and Expense:** This category is comprised of pantry sales (food and sundry), interest income, vending machine commissions, guest laundry, meeting room rental, telephone, and other miscellaneous income. We estimated Miscellaneous Income to be \$20,000 in the first year, which equates to \$1.66 per occupied room. The corresponding expense of 40.0 percent is reflected throughout the projection period.

### **Undistributed Operating Expenses**

Operating expenses that are not chargeable to a particular operating department are presented as undistributed operating expenses in accordance with the *11<sup>th</sup> Revised Edition of the Uniform System of Accounts for the Lodging Industry*. These expenses are discussed in the following paragraphs.

**Administrative and General (A&G):** This category covers expenses such as salaries and wages for management staff, bookkeeping, credit card commissions, data processing charges, property management system, corporate office charges, office supplies, legal, accounting, allowance for bad debts, travel expenses, licenses and permits, and similar items.

#### **A&G Expense**

<b>Category</b>	<b>Limited-Service Hotels</b>	
	<b>PAR</b>	<b>Ratio to Sales</b>
West North Central Region	\$2,443	9.6%
Small Metro/Town Location	\$2,282	8.7%
Upper Midscale Class	\$2,869	8.5%
Midscale/Economy Class	\$1,923	9.9%
Custom HOST 2015	\$2,620	10.8%
Custom HOST 2016	\$2,639	10.7%
<b>PHC Estimate (Stabilized)</b>	<b>\$2,758</b>	<b>11.3%</b>

*Source: HOST Almanac, STR, Inc., Patek Hospitality Consultants, Inc.*

**Information and Telecommunication Systems:** This category includes the cost of management information system services, supplies, and equipment as well as the expenses associated with the maintaining these systems. These systems also include telecommunication systems such as local, long distance, and Internet communications. In the third year of operation, this expense was estimated to be \$20,400 or \$340 per available room.

**Marketing:** Marketing expenses include local advertising, the cost of printing brochures, salaries, entertainment, dues and subscriptions and other related items. This expense excludes Franchise Fees.

### Marketing Expense

Category	Limited-Service Hotels	
	PAR	Ratio to Sales
West North Central Region	\$1,313	5.1%
Small Metro/Town Location	\$1,112	5.2%
Upper Midscale Class	\$1,686	5.0%
Midscale/Economy Class	\$717	3.7%
Custom HOST 2015	\$687	2.8%
Custom HOST 2016	\$702	2.9%
<b>PHC Estimate (Stabilized)</b>	<b>\$884</b>	<b>3.6%</b>

*Source: HOST Almanac, STR, Inc., Patek Hospitality Consultants, Inc.*

**Franchise Fees:** Franchise fees were estimated to be 5.5 percent of room sales throughout the projection period, which equates to \$63,000. Since a brand has not been identified for the proposed hotel, we used an average of 5.5 percent based on various hotel brands. Franchise fees include royalty fees and advertising assessments charged by franchise companies. According to *HVS International*, “all franchisors collect a royalty fee, which represents compensation for the use of the brand’s trade name; service marks and associated logos; goodwill; and other franchise services. Royalty fees represent a major source of revenue for a franchisor and are calculated based on a percentage of rooms revenue”.

**Utility Costs:** Utility costs tend to fluctuate based on location, weather, size of hotel, facilities and amenities offered, and other factors.

### Utility Costs

Category	Limited-Service Hotels	
	PAR	Ratio to Sales
West North Central Region	\$1,091	4.3%
Small Metro/Town Location	\$1,137	4.3%
Upper Midscale Class	\$1,251	3.7%
Midscale/Economy Class	\$997	5.1%
Custom HOST 2015	\$1,059	4.4%
Custom HOST 2016	\$1,067	4.3%
<b>PHC Estimate (Stabilized)</b>	<b>\$1,167</b>	<b>4.8%</b>

*Source: HOST Almanac, STR, Inc. Patek Hospitality Consultants, Inc.*

**Property Operations and Maintenance:** Property operations and maintenance expenses include salaries and wages, employee benefits, normal maintenance of the building, pool, and grounds including electrical and mechanical equipment, landscaping, and waste removal.

### Property Operations & Maintenance Expense

Category	Limited-Service Hotels	
	PAR	Ratio to Sales
West North Central Region	\$1,291	5.1%
Small Metro/Town Location	\$1,298	5.0%
Upper Midscale Class	\$1,536	4.6%
Midscale/Economy Class	\$1,088	5.6%
Custom HOST 2015	\$1,271	5.2%
Custom HOST 2016	\$1,227	5.0%
<b>PHC Estimate (Stabilized)</b>	<b>\$1,379</b>	<b>5.7%</b>

Source: HOST Almanac, STR, Inc., Patek Hospitality Consultants, Inc.

**Management Fees:** A management fee of 4.0 percent of gross sales has been deducted throughout the projection period based on the hotel being operated by a third party management company. Management fees typically range between three and five percent of total revenue.

### Fixed Charges

**Property Taxes:** Property taxes have been estimated based on assessment and tax information for comparable hotels in Saint Peter that included the AmericInn Hotel & Suites. Taxes paid in 2016 for this hotel were \$41,714 or \$834 per available room; in 2017, the AmericInn's taxes will be \$41,912 or \$838 per available room. Based on this information, we estimated taxes for the proposed hotel, as a brand new hotel, to be \$36,000 in Year 1 increasing to \$56,700 in the third year of operation (stabilized year). By the fifth year of operation, taxes are estimated to be \$60,100.

**Insurance:** This insurance category covers only the cost of building and contents insurance. The liability insurance is included in the A&G expense and is estimated to be \$18,000 in the third year of operation.

### Insurance Expense

Category	Limited-Service Hotels	
	PAR	Ratio to Sales
West North Central Region	\$235	0.9%
Small Metro/Town Location	\$298	1.1%
Upper Midscale Class	\$317	0.9%
Midscale/Economy Class	\$244	1.3%
Custom HOST 2015	\$222	0.9%
Custom HOST 2016	\$263	1.1%
<b>PHC Estimate (Stabilized)</b>	<b>\$301</b>	<b>1.2%</b>

Source: HOST Almanac, STR, Inc., Patek Hospitality Consultants, Inc.

**Reserve for Capital Replacement:** As is standard for income-producing properties provision has been made for a reserve for capital replacement for furniture, fixtures, and equipment, as well as other long-lived items. The reserve for replacement expense has been estimated on a “step-up” basis for the first year of operation at 1.0 percent; 2.0 percent in Year 2 and beginning in the third year and for the remainder of the projection period, 4.0 percent of total revenues is estimated to provide sufficient funds for future capital improvements.

### **Cash Flow Projections**

Our projections for the subject property, before deductions for interest, income taxes, depreciation, and amortization but after Reserve for Capital Replacement, are presented in the table on the following page. We project that, after reserve for replacement, the subject hotel would have a net operating income equal to 33.5 percent of total sales in the stabilized year of operation; the NOI ranges between 29.7 percent and 33.6 percent of total sales throughout the projection period.

#### **Net Operating Income (NOI)**

<b>Category</b>	<b>Limited-Service Hotels</b>		
	<b>PAR</b>	<b>POR</b>	<b>Ratio to Sales</b>
West North Central Region	\$8,708	\$33.08	34.2%
Small Metro/Town Location	\$9,588	\$37.89	36.6%
Upper Midscale Class	\$11,599	\$42.99	34.3%
Midscale/Economy Class	\$8,366	\$31.65	43.2%
Custom HOST 2015	\$7,222	\$29.12	29.7%
Custom HOST 2016	\$7,231	\$29.68	29.4%
<b>PHC Estimate (Third Year)</b>	<b>\$8,134</b>	<b>\$34.28</b>	<b>33.5%</b>

*Source: HOST Almanac, STR, Inc. Patek Hospitality Consultants, Inc.*

The Statement of Estimated Annual Operating Results for the proposed midscale limited-service hotel for the first five years of operation is shown on the following page.

**PROPOSED MIDSCALE LIMITED-SERVICE HOTEL - SAINT PETER, MINNESOTA**  
**STATEMENT OF ESTIMATED ANNUAL OPERATING RESULTS**

	21,900	Year 1	RevPAR	21,900	Year 2	RevPAR	21,900	Year 3	RevPAR	21,900	Year 4	RevPAR	21,900	Year 5	RevPAR
TOTAL ROOMS/YEAR	21,900		\$52.25	21,900		\$58.80	21,900		\$65.65	21,900		\$67.60	21,900		\$69.55
OCC. ROOMS/OCCUPANCY/ADR	12,045	55.0%	\$95.00	13,140	60.0%	\$98.00	14,235	65.0%	\$101.00	14,235	65.0%	\$104.00	14,235	65.0%	\$107.00
60 ROOMS	Current Dollars (000's)	% of Sales Ratio	POR's or PAR's												
<b>REVENUES</b>															
Rooms	\$1,144.3	98.3%	\$95.00	\$1,287.7	98.4%	\$98.00	\$1,437.7	98.5%	\$101.00	\$1,480.4	98.5%	\$104.00	\$1,523.1	98.5%	\$107.00
Food & Beverage	0.0	0.0%	0.00	\$0.0	0.0%	0.00	\$0.0	0.0%	0.00	0.0	0.0%	0.00	0.0	0.0%	0.00
Other Operated Income	0.0	0.0%	0.00	0.0	0.0%	0.00	0.0	0.0%	0.00	0.0	0.0%	0.00	0.0	0.0%	0.00
Miscellaneous Income	<u>\$20.0</u>	<u>1.7%</u>	<u>\$1.66</u>	<u>\$20.6</u>	<u>1.6%</u>	<u>\$1.57</u>	<u>\$21.2</u>	<u>1.5%</u>	<u>\$1.49</u>	<u>\$21.9</u>	<u>1.5%</u>	<u>\$1.54</u>	<u>\$22.5</u>	<u>1.5%</u>	<u>\$1.58</u>
<b>TOTAL REVENUES</b>	<b>\$1,164.3</b>	<b>100.0%</b>	<b>\$96.66</b>	<b>\$1,308.3</b>	<b>100.0%</b>	<b>\$99.57</b>	<b>\$1,459.0</b>	<b>100.0%</b>	<b>\$102.49</b>	<b>\$1,502.3</b>	<b>100.0%</b>	<b>\$105.54</b>	<b>\$1,545.7</b>	<b>100.0%</b>	<b>\$108.58</b>
<b>DEPARTMENTAL EXPENSES</b>															
Rooms	\$263.2	23.0%	\$21.85	\$283.3	22.0%	\$21.56	\$316.3	22.0%	\$22.22	\$325.7	22.0%	\$22.88	\$335.1	22.0%	\$23.54
Food & Beverage	0.0	0.0%	0.00	0.0	0.0%	0.00	0.0	0.0%	0.00	0.0	0.0%	0.00	0.0	0.0%	0.00
Miscellaneous Expense	<u>\$15.0</u>	<u>40.0%</u>	<u>\$1.25</u>	<u>\$8.2</u>	<u>40.0%</u>	<u>\$0.63</u>	<u>\$8.5</u>	<u>40.0%</u>	<u>\$0.60</u>	<u>\$8.7</u>	<u>40.0%</u>	<u>\$0.61</u>	<u>\$9.0</u>	<u>40.0%</u>	<u>\$0.63</u>
<b>TOTAL DEPARTMENTAL EXPENSES</b>	<b>\$278.2</b>	<b>23.9%</b>	<b>\$23.10</b>	<b>\$291.5</b>	<b>22.3%</b>	<b>\$22.19</b>	<b>\$324.8</b>	<b>22.3%</b>	<b>\$22.82</b>	<b>\$334.4</b>	<b>22.3%</b>	<b>\$23.49</b>	<b>\$344.1</b>	<b>22.3%</b>	<b>\$24.17</b>
<b>DEPARTMENTAL PROFIT</b>	<b>\$886.1</b>	<b>76.1%</b>	<b>\$73.57</b>	<b>\$1,016.8</b>	<b>77.7%</b>	<b>\$77.38</b>	<b>\$1,134.2</b>	<b>77.7%</b>	<b>\$79.67</b>	<b>\$1,167.9</b>	<b>77.7%</b>	<b>\$82.04</b>	<b>\$1,201.6</b>	<b>77.7%</b>	<b>\$84.41</b>
<b>UNDISTRIBUTED OPERATING EXPENSES</b>															
Administrative & General	\$156.0	13.4%	\$2,600	\$160.7	12.3%	\$2,678	\$165.5	11.3%	\$2,758	\$170.5	11.3%	\$2,841	\$175.6	11.3%	\$2,926
Information & Telecomm. Systems	\$16.3	1.4%	\$272	\$18.3	1.4%	\$305	\$20.4	1.4%	\$340	\$21.0	1.4%	\$351	\$21.6	1.4%	\$361
Marketing	\$50.0	4.3%	\$833	\$51.5	3.9%	\$858	\$53.0	3.6%	\$884	\$54.6	3.6%	\$911	\$56.3	3.6%	\$938
Franchise Fee	\$63.0	5.4%	\$1,050	\$63.0	4.8%	\$1,050	\$63.0	4.3%	\$1,050	\$63.0	4.2%	\$1,050	\$63.0	4.1%	\$1,050
Utility Costs	\$66.0	5.7%	\$1,100	\$68.0	5.2%	\$1,133	\$70.0	4.8%	\$1,167	\$72.1	4.8%	\$1,202	\$74.3	4.8%	\$1,238
Property Operations & Maintenance	<u>\$78.0</u>	<u>6.7%</u>	<u>\$1,300</u>	<u>\$80.3</u>	<u>6.1%</u>	<u>\$1,339</u>	<u>\$82.8</u>	<u>5.7%</u>	<u>\$1,379</u>	<u>\$85.2</u>	<u>5.7%</u>	<u>\$1,421</u>	<u>\$87.8</u>	<u>5.7%</u>	<u>\$1,463</u>
<b>TOTAL UNDISTRIBUTED</b>	<b>\$429.3</b>	<b>36.9%</b>	<b>\$7,155</b>	<b>\$441.8</b>	<b>33.8%</b>	<b>\$7,364</b>	<b>\$454.7</b>	<b>31.2%</b>	<b>\$7,579</b>	<b>\$466.5</b>	<b>31.1%</b>	<b>\$7,775</b>	<b>\$478.6</b>	<b>31.0%</b>	<b>\$7,976</b>
<b>GROSS OPERATING PROFIT</b>	<b>\$456.8</b>	<b>39.2%</b>	<b>\$7,613</b>	<b>\$575.0</b>	<b>43.9%</b>	<b>\$9,583</b>	<b>\$679.4</b>	<b>46.6%</b>	<b>\$11,324</b>	<b>\$701.4</b>	<b>46.7%</b>	<b>\$11,689</b>	<b>\$723.0</b>	<b>46.8%</b>	<b>\$12,050</b>
Management Fee	<u>\$46.6</u>	<u>4.0%</u>	<u>\$776</u>	<u>\$52.3</u>	<u>4.0%</u>	<u>\$872</u>	<u>\$58.4</u>	<u>4.0%</u>	<u>\$973</u>	<u>\$60.1</u>	<u>4.0%</u>	<u>\$1,002</u>	<u>\$61.8</u>	<u>4.0%</u>	<u>\$1,030</u>
<b>INCOME BEFORE FIXED CHARGES</b>	<b>\$410.2</b>	<b>35.2%</b>	<b>\$6,837</b>	<b>\$522.6</b>	<b>39.9%</b>	<b>\$8,711</b>	<b>\$621.1</b>	<b>42.6%</b>	<b>\$10,351</b>	<b>\$641.3</b>	<b>42.7%</b>	<b>\$10,688</b>	<b>\$661.2</b>	<b>42.8%</b>	<b>\$11,019</b>
<b>FIXED CHARGES</b>															
Real Estate Taxes	\$36.0	3.1%	\$600	\$55.0	4.2%	\$917	\$56.7	3.9%	\$944	\$58.3	3.9%	\$972	\$60.1	3.9%	\$1,002
Insurance	<u>\$17.0</u>	<u>1.5%</u>	<u>\$283</u>	<u>\$17.5</u>	<u>1.3%</u>	<u>\$292</u>	<u>\$18.0</u>	<u>1.2%</u>	<u>\$301</u>	<u>\$18.6</u>	<u>1.2%</u>	<u>\$310</u>	<u>\$19.1</u>	<u>1.2%</u>	<u>\$319</u>
<b>TOTAL FIXED CHARGES</b>	<b>\$53.0</b>	<b>4.6%</b>	<b>\$883</b>	<b>\$72.5</b>	<b>5.5%</b>	<b>\$1,209</b>	<b>\$74.7</b>	<b>5.1%</b>	<b>\$1,245</b>	<b>\$76.9</b>	<b>5.1%</b>	<b>\$1,282</b>	<b>\$79.2</b>	<b>5.1%</b>	<b>\$1,321</b>
<b>EBITDA*</b>	<b>\$357.2</b>	<b>30.7%</b>	<b>\$5,954</b>	<b>\$450.1</b>	<b>34.4%</b>	<b>\$7,502</b>	<b>\$546.4</b>	<b>37.5%</b>	<b>\$9,106</b>	<b>\$564.4</b>	<b>37.6%</b>	<b>\$9,406</b>	<b>\$581.9</b>	<b>37.6%</b>	<b>\$9,699</b>
Reserve for Capital Replacement	<u>\$11.6</u>	<u>1.0%</u>	<u>\$194</u>	<u>\$26.2</u>	<u>2.0%</u>	<u>\$436</u>	<u>\$58.4</u>	<u>4.0%</u>	<u>\$973</u>	<u>\$60.1</u>	<u>4.0%</u>	<u>\$1,002</u>	<u>\$61.8</u>	<u>4.0%</u>	<u>\$1,030</u>
<b>INCOME AVAILABLE FOR DEBT SERVICE</b>	<b>\$345.6</b>	<b>29.7%</b>	<b>\$5,760</b>	<b>\$424.0</b>	<b>32.4%</b>	<b>\$7,066</b>	<b>\$488.0</b>	<b>33.5%</b>	<b>\$8,134</b>	<b>\$504.3</b>	<b>33.6%</b>	<b>\$8,404</b>	<b>\$520.1</b>	<b>33.6%</b>	<b>\$8,668</b>

\*EBITDA - Earnings before Interest, Taxes, Depreciation and Amortization  
NUMBERS MAY NOT ADD DUE TO ROUNDING  
SOURCE: PATEK HOSPITALITY CONSULTANTS, INC.

## **ASSUMPTIONS AND LIMITING CONDITIONS**

1. This document is to be used in whole and not in part.
2. Our conclusions are explicitly based upon the assumption that the proposed hotel will be developed and constructed to competitive standards, operated in a manner typical of a high-quality hotel, and include the assumed facilities and amenities as set forth in this report. It is expressly understood that the conclusions of this analysis could change upon any deviation from this assumption. Furthermore, the changes that might arise could be material. For the purposes of this engagement we have assumed that the proposed facility will open within a reasonable timeframe (18-24 months) from the date of this report, and contain approximately 60 guest rooms and suites. The hotel will operate as a chain affiliated hotel, be operated by competent management, and be effectively marketed to the appropriate demand segments identified in this report. We have no obligation to update our findings regarding changes to the scope of the proposed development including (but not limited to) changes in the guestroom inventory, ancillary facilities program, and lodging product concept.
3. As in all studies of this type, the estimated results are based upon competent and efficient management and effective marketing.
4. Estimated results are also based on an evaluation of the present general economy of the area and do not take into account, or make provisions for, the effect of any sharp rise or decline in local or general economic conditions, which may occur. There usually will be differences between the estimated and actual results, because events and circumstances frequently do not occur as expected. Such differences may be material.
5. It is expressly understood that the scope of our study and report thereon does not include the possible impact of zoning or environmental regulations, licensing requirements or other such restrictions concerning the project except where such matters have been brought to our attention and disclosed in the report.
6. We have no obligation to update our findings regarding changes to the scope of the proposed development or changes in market conditions subsequent to the completion of our fieldwork. The information gathered during the course of the fieldwork and used in this analysis is assumed to be accurate, although we cannot guarantee its accuracy.
7. Neither all nor part of the contents of this report shall be disseminated to the public through advertising media, news media, sales media, or any public means of communication *without* the prior written consent and approval of Patek Hospitality Consultants, Inc. The City of Saint Peter has the permission of Patek Hospitality Consultants, Inc. to publish the report based on the Minnesota Data Practices Act.

8. No liability is assumed for matters legal in nature. Patek Hospitality Consultants, Inc. cannot be held liable in any cause of action concerning this assignment for any compensatory dollar amount over and above the total fees collected from this engagement.
9. Any and all legal expenses incurred in the defense or representation of Patek Hospitality Consultants, Inc., its principals, and its employees will be the responsibility of the client.
10. We are not required to give testimony or attendance in court by reason of this assignment, with reference to the property in question, unless prior arrangements have been made and agreed to in writing.
11. Patek Hospitality Consultants, Inc. is not obligated, or qualified, to predict future political, economic or social trends that may or may not occur as a result. Additionally, Patek Hospitality Consultants, Inc. reserves the right to make such adjustments to the analyses, opinions and conclusions set forth in this report as may be required by consideration of additional data or more reliable data that may become available outside of the scope of this initial engagement.